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SUBJECT: UGANDA: 2009 INTERNATIONAL NARCOTICS CONTROL STRATEGY  
REPORT, PART II

REF: A) STATE 114960, B) KAMPALA 1293, C) 08 KAMPALA 1601

¶1. Summary: Uganda is not a major hub for narcotics trafficking and terrorism financing, but it is a growing site for money laundering. Ugandan efforts to combat money laundering are hampered by the continued absence of comprehensive anti-money laundering legislation, severe resource constraints, and internal government corruption. Counterfeit U.S. currency is a recurring problem. While Uganda has no formal cooperative agreements with the U.S. in regard to narcotics or money laundering crimes, Ugandan authorities continue to cooperate with U.S. law enforcement. Uganda's inability to monitor formal and informal financial transactions, particularly along porous borders with Sudan, Kenya, Tanzania, and the Democratic Republic of Congo, render Uganda vulnerable to more advanced money laundering activities and potential terrorist financing. End Summary.

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Anti-Money Laundering Legislation Stalled  
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¶2. Uganda's Financial Action Task Force (FATF), comprised of multiple Ugandan government ministries and chaired by the Bank of Uganda (BOU), worked with technical advisors from the U.S. Department of Treasury to draft a comprehensive Anti-Money Laundering (AML) bill based on the FATF's previously drafted Forty Recommendations on Money Laundering. The FATF completed the draft AML bill in 2003, and Cabinet approved the bill in January 2005. In 2009, the bill was finally submitted to Parliament. Citing "procedural concerns", the Finance Ministry drafted several amendments to the bill in consultation with other ministries and the BOU. Some attribute the delay in passing the AML to corrupt government officials currently exploiting loopholes the AML is designed to close.

¶3. Without AML laws, Uganda cannot create an operational Financial Intelligence Unit (FIU) or pursue other anti-money laundering measures. The draft AML bill provides for the creation of an FIU under the Minister of Finance. The legislation would also create an Anti-Money Laundering Board to oversee the national strategy on money laundering, criminalize money laundering, and facilitate the investigation and prosecution of money laundering offenses.

¶4. From 2002 to 2004, the BOU issued guidelines to financial institutions, foreign exchange (forex) bureaus, and local insurance companies stipulating that banks, forex bureaus, and other financial institutions comply with "Know Your Customer" principles such as instituting internal control measures and reporting suspicious activities to the BOU for further investigation. Section 126 of the Financial Institutions Act (FIA) requires financial institutions to follow BOU orders and guidelines, and the BOU conducts regular site inspections at financial institutions. This oversight has resulted in increased financial institution compliance and cooperation with

BOU. For example, in November 2009, reports surfaced that Centenary Bank froze a number of accounts pending a further investigation with BOU into the source of the funds.

15. Barclays Bank and Stanbic Bank have implemented policies based on the United Kingdom's anti-money laundering legislation. Other international banks such as Citibank and Standard Chartered have formulated similar anti-money laundering guidelines that meet international standards. The BOU attempts to monitor cross-border financial transactions in conjunction with custom officials at some border posts, but is limited by severe resource constraints.

16. The government has implemented few controls for non-banking financial institutions and intermediaries. The Capital Markets Authority supervises the Uganda Stock Exchange, stock brokerage firms, and broker/dealers. The Uganda Insurance Commission supervises insurance companies, insurance brokers, and insurance agents. Lawyers and accountants are considered self-regulating organizations under Ugandan law. Other entities such as casinos, real estate agents, vehicle importers, and precious metal dealers are neither self-regulated nor supervised. For purposes of compliance with the anti-money laundering requirements, section seven of the AML bill proposes that the FIU supervise these currently unregulated/self-regulated entities.

17. Nearly 130 forex bureaus operate in Uganda. The BOU closed four forex bureaus in 2008. One forex bureau was closed due to lack of capitalization. The three others were closed for not meeting BOU performance and adequate capital requirements. No forex bureaus were closed in 2009.

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Whistleblowers Need More Protection  
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18. Whistleblowers who report suspicious money transfers have some protection under the law. The AML bill, if and when passed, will provide additional whistleblower protections. A Whistleblowers and Witness Protection Bill sponsored by the Ministry of Ethics and Integrity is under review in Parliament. This bill will provide broader protections for individuals who report incidents of corruption to authorities.

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Informal Economy Facilitates Money Laundering  
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19. Money laundering in Uganda derives from a wide range of activities, including government corruption, misappropriation of public funds and foreign assistance, abuse of the public procurement process, as well as from abuse of religious charities, land speculation, car theft, arms and natural resource smuggling, and exchange control violations. Uganda's active informal economy also provides a fertile environment for money laundering. Uganda's thriving black market for smuggled and/or counterfeit goods takes advantage of porous borders and lack of customs and tax collection enforcement capacity. Many Ugandans working abroad use an informal cash-based remittance system to send money to their families. Annual remittances are Uganda's largest single source of foreign currency and totaled \$414 million in 2008/2009, down sharply from \$645 million in 2006/2007 and \$546 million in 2007/2008 due to the global financial crisis. Remittances are used primarily for consumption purchases, such as consumer goods, school fees, and rent. There is little reinvestment in businesses on behalf of Ugandans living overseas, although some do purchase homes and real estate in Uganda.

110. The extensive use of cash -- U.S. dollars and Ugandan shillings -- instead of other financial instruments, even for purchases such as real estate, hinders the monitoring of financial transactions. The GOU has no effective means to prevent money launderers from setting up local non-governmental organizations (NGOs) to mask financial transactions. The Finance Ministry would like to propose legislation that would closely monitor the financial transactions of NGOs, but cannot do so until Parliament passes the AML bill. In the meantime, the GOU requires individuals obtaining work permits with NGOs to demonstrate they have had no prior criminal convictions,

either by providing a letter from the police or a letter from the individual's embassy if the individual is a foreign national. Forex bureaus are not authorized to conduct international money transfers. The transfers of Western Union and other international money transfer agencies are monitored.

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No Offshore Banking, EPZs, or FTAs  
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¶11. Uganda is not considered an offshore financial center. The Special Economic Zones Bill of 2002 authorized the creation of export processing zones (EPZs) and free trade areas (FTAs) within Uganda. However, Uganda has not created any EPZs or FTAs despite a \$24 million credit from the World Bank to do so. The Uganda Investment Authority (UIA) is in the process of establishing an industrial business park at Namanve, east of Kampala, and hopes to use World Bank funds to create EPZs and FTAs within this area. However, it lacks a legal framework to manage them. This framework is articulated in the draft Free Trade Zones Bill currently undergoing Cabinet review. The UIA will continue to regulate operators in the zones until a Uganda Free Zones Authority is established.

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Counterfeit Currency a Growing Problem  
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¶12. Counterfeit U.S. currency is a consistent problem in Uganda. Counterfeit U.S. currency arrives from, and transits through, Uganda to the Democratic Republic of Congo, Kenya, and Dubai. In one common counterfeit scheme, counterfeiters sell fake U.S. currency marked or "masked" by black ink or a special stamp. The seller offers this currency at a discount because of the markings, and claims that the bills can be exchanged or "unmasked" at a U.S. embassy or bank. Larger schemes involving millions of counterfeit U.S. dollars also occur. In mid-2008 in eastern Uganda, police arrested an individual in possession of more than \$1 million in counterfeit U.S. dollars. Highlighting Uganda's unwillingness to crack down on counterfeiters in cases involving well-connected individuals, police subsequently released the individual from custody, and he later disappeared.

¶13. In 2008, the U.S. Mission and U.S. Secret Service (USSS) trained commercial banks, BOU employees, police, and immigration officers at Entebbe International Airport on how to detect counterfeit U.S. currency. The USSS has offered to conduct follow-on training in 2010. During the training, Ugandan commercial banks, the BOU, and Mission personnel agreed that the BOU would serve as the central depository for counterfeit U.S. dollars seized in Uganda. This system has allowed Mission personnel to track much larger amounts of counterfeit U.S. currency intercepted in the country. The counterfeit notes are passed on to the USSS office in Pretoria, South Africa, for investigation. Fraudulent wire transfer letters are another vehicle for financial crime, but U.S. banks usually catch the fraud. Ugandan authorities have also sought Embassy assistance in cases involving counterfeit AMEX travelers' checks, and routinely seek Embassy confirmation that U.S. bank notes seized during investigations are spurious.

¶14. The 2002 Anti-Terrorism Act (ATA) criminalizes contributing, soliciting, controlling, or managing funds used to support terrorism or terrorist organizations. The BOU has the power to freeze the assets of any entity designated as a terrorist organization, and also may require a commercial bank to freeze its customer's assets in response to an outside request with a legally binding international convention that Uganda has signed. The BOU has yet to freeze any assets under the ATA, however. The AML bill would allow the GOU to seize all proceeds of crime, as it outlines procedures for freezing, seizing, and forfeiting assets used for money laundering.

¶15. The Criminal Investigations Department (CID) of the Ugandan Police Force is responsible for investigating financial crimes. In 2001, the GOU criminalized narcotics-related money laundering, but until Parliament approves the AML legislation, the CID maintains only limited authority to investigate and prosecute money laundering

violations. The CID is understaffed and lacks adequate training in financial investigation techniques related to AML and terrorist financing. Internal corruption within the CID also hampers police investigative capacity. According to GOU officials, criminals have access to technology that is more sophisticated than what is available to police investigators. The Inspectorate General of Government (IGG) has the power to investigate cases brought to it by the public, but in practice AML and terrorist financing cases are investigated by the CID.

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International Cooperation  
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¶16. Uganda is a member of the East and Southern African Anti-Money Laundering Group (ESAAMLG) and is party to the 1988 UN Drug Convention. It has signed, and ratified, the United Nations Convention against Transnational Organized Crime. Uganda has signed but not ratified the UN International Convention for the Suppression of the Financing of Terrorism, the International Convention for the Suppression of Terrorist Bombings, and the Organization of African Unity's Convention on the Prevention and Combating of Terrorism. Uganda is an active member of the International Criminal Police Organization (INTERPOL), and hosts the headquarters of the United National African Institute for the Prevention of Crime and Treatment of Offenders (UNAFRI). In 2004, the BOU circulated to financial institutions the list of individuals and entities included on the UNSCR 1267 Sanctions Committee's consolidated list. The BOU would like to propose legislation to enforce relevant provisions of the UN Security Council Resolutions 1269, 1368, and 1373 concerning terrorism.

¶17. Uganda and the United States do not have formal agreements to facilitate the exchange of records in connection with narcotics and money laundering crimes. Nevertheless, Ugandan authorities have cooperated with U.S. law enforcement efforts in the past. In May 2004, at the request of the United States, the GOU detained and deported two U.S. citizens to face money laundering and wire fraud charges in the U.S.

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Challenges and Recommendations  
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¶18. Uganda should pass the anti-money laundering bill now pending in Parliament to provide Uganda with comprehensive anti-money laundering legislation that meets international standards and establish a Financial Intelligence Unit. Uganda should also pass pending whistleblower legislation. Other challenges include informing the public about money laundering, creating infrastructure to implement anti-money laundering guidelines, and seeking the

cooperation of financial institutions and other stakeholders. The GOU should also continue to seek out training opportunities for its bankers, police investigators, and prosecutors to improve awareness of money laundering schemes.

¶19. The U.S. Mission's INCSR point of contact is Economic and Commercial Officer Donald Cordell (cordelldb@state.gov).

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